

MINUTES

**MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on February 12, 1999 at 8:00 A.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Bob DePratu, Vice Chairman (R)
Sen. Dorothy Eck (D)
Sen. E. P. "Pete" Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Alvin Ellis Jr. (R)
Sen. Bill Glaser (R)
Sen. Barry "Spook" Stang (D)

Members Excused: Sen. John C. Bohlinger (R)

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Lee Heiman, Legislative Branch

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: SB 370, 2/9/1999; SB 380,
2/9/1999

Executive Action: None

HEARING ON SB 380

Sponsor: SENATOR JOHN "J.D." LYNCH, SD 19, BUTTE

Proponents: Kirk Astroth, Montana Children's Trust Fund
Janet Ellis, Montana Audubon
Pat Graham, Fish, Wildlife & Parks
Gene Hickman, Montana Audubon

**Chuck Hunter, Department of Public Health &
Human Services
Sara Lipscomb, Montana Council for Families**

Opponents: None

Opening Statement by Sponsor:

SEN. JOHN "J.D." LYNCH, SD 19, Butte, said that **SB 380** is an act revising the income tax checkoff system by reducing from \$20,000 to \$10,000 the threshold amount that triggers termination of certain tax checkoffs. He said that this funding source is of great benefit to the programs, and this change gives a little more flexibility in obtaining those funds.

Proponents' Testimony:

Kirk Astroth, Chair, Children's Trust Fund, said he is one of seven volunteers who are appointed by the Governor to administer the trust fund, and he encouraged support of **SB 380**.

Mr. Astroth said that the checkoff has helped the fund garner and leverage a lot of federal funds, and is a key component for coming up with the required state match. He said without the checkoff funding, 90% of their federal funds would be in jeopardy. He said the fund currently funds ten projects around the state that are focused on family support and are locally based.

Janet Ellis, Montana Audubon, said the other checkoff on the tax form is for the Nongame Wildlife Program. She provided a tax sheet that demonstrated the three checkoffs, **EXHIBIT(tas35a01)**. She said the child abuse prevention program dipped below the \$20,000, so that will not be on the form this year.

Ms. Ellis said the nongame program is for education and research related to animals that are not hunted, and provided a sheet which showed checkoff revenues, **EXHIBIT(tas35a02)**. She said that these funds can also be used as seed money for federal funds.

Pat Graham, Director, Department of Fish, Wildlife and Parks, said that the Department manages the state's Watchable Wildlife Program, and a large portion of the activities involved in that are funded by this checkoff, which are typically matched with other contributions on a three-to-one basis. He provided a wildlife checkoff revenue history, **EXHIBIT(tas35a03)**, with his written testimony, **EXHIBIT(tas35a04)** on the back. He said the Department of Fish, Wildlife and Parks urges support of **SB 380**.

Gene Hickman, Montana Audubon, Helena, said that he feels that this program is one of the most successful that Montana has had. This is a voluntary program where taxpayers can contribute to a fund of their choice, and the General Fund is not affected by this checkoff. He passed out an information sheet on nongame wildlife programs, **EXHIBIT (tas35a05)**, which are the result of this funding program. He asked the committee to positively consider **SB 380**.

Chuck Hunter, Administrator, Child and Family Services Division, Department of Public Health and Human Services, said that the purpose of the Montana Children's Trust Fund is to fund a broad range of child abuse and neglect prevention activities and resource programs. It helps keep kids and families out of the Department's system of dealing with reports of abuse and neglect in the state of Montana. **Mr. Hunter** said that the Children's Trust Fund needs about a \$35,000 match to acquire \$175,000 in federal matching funds, and this helps attain that goal. He urged support.

Sara Lipscomb, Executive Director, Montana Council for Families, a private, non-profit child abuse prevention organization, said that they work in collaboration with the Department of Family Services and Montana Children's Trust Fund, and they support **SB 380**.

Opponents' Testimony: None

Questions from Committee Members and Responses:

SEN. STANG said that there had been testimony that the number of donors had decreased, and he wondered if there had been any effort on the part of any of these programs to advertise and make people aware of this checkoff option, and **SEN. LYNCH** said that when this option was first started, it was well advertised, but that people need to be made aware again.

SEN. ECK said that the problem she had found was that accountants have computer programs that they use to prepare your taxes, and this kind of thing is not on those, and **SEN. LYNCH** said he hoped that all the groups that have interest in checkoffs might meet with accountants' organizations to make them aware of this situation and work with them.

CHAIRMAN DEVLIN pointed out that other groups have participated in this checkoff program but are no longer. He said he didn't think it used to be limited, and **SEN. LYNCH** agreed. He said if it is less than \$10,000, it becomes a nightmare to collect.

SEN. ELLIS said that on the handout that **Ms. Ellis** distributed, only two of the checkoff boxes had been highlighted, but in the statute it cites three sections of law, and he wondered if this would affect all three of the checkoff boxes. **SEN. LYNCH** said that the ag education does not need a threshold; whatever they take in, they get.

SEN. EKEGREN asked **Mr. Hunter** to clarify his statement about needing \$35,000 for federal matching, and he responded that the program needs a \$35,000 matching threshold to get the federal funds. He clarified that from the checkoff source, they collect an average of \$15,000 to \$18,000 per year. The trust fund also gets funding from a small split off of divorce fees, which is about \$18,000 to \$20,000. So there is other funding that the trust fund does collect.

Closing by Sponsor:

SEN. LYNCH asked what better way to fund programs than by a voluntary donation by taxpayers. He said he hoped the bill would meet with the approval of the committee.

HEARING ON SB 370

Sponsor: SENATOR BARRY "SPOOK" STANG, SD 36, ST. REGIS

Proponents: Gordon Morris, Montana Association of Counties
Alec Hansen, Montana League of Cities and Towns
Nathan Tuberg, City of Billings
Tim Burton, Lewis & Clark County
Mike Kadas, Mayor, Missoula
Sen. Dorothy Eck, SD 15, Bozeman

Opponents: None

Opening Statement by Sponsor:

SEN. BARRY "SPOOK" STANG, SD 36, St. Regis, offered for consideration **SB 370**, which is a recommendation of the Interim Property Tax Committee, and allows for the local option sales tax by amending the statutes that talk about the resort tax. The local option sales tax would have a maximum rate of 3%, and at least 5% of the local option sales tax must be used for reduction of local property taxes. The bill specifically lists the goods and services to be taxed.

SEN. STANG pointed out that Section 2 gives the taxing authority to the counties and municipalities which did not have it before. Section 4 requires that the election be held, either by petition

of the electors or by resolution of the governing body. Section 15 talks about the distribution of local option sales tax proceeds. This is a tax that would broaden the tax base, and give the people an opportunity to vote on what would be taxed and how it would be distributed.

Proponents' Testimony:

Gordon Morris, Director, Montana Association of Counties, said his association has worked a long time on getting a local option sales tax available to county commissioners as well as municipal leaders. He quoted from the Association's policy manual, "MACO supports local authority to implement various local option taxes to offset local property tax revenues, the lack of federal revenues, and the decrease in state revenue. Such legislation should include consideration for hotel/motel taxes, restaurant taxes, luxury taxes," and this bill meets all those requirements. He recommended favorable consideration.

Alec Hansen, Montana League of Cities and Towns, said his organization supports **SB 370**. This bill essentially removes the population limit and the economic criteria from the resort tax, essentially making that option available to every city, town and county across the state. He said, generally, once these taxes are put into place, they tend to stay in place. **Mr. Hansen** said this is real tax reform that can have a significant effect on property taxes across the state of Montana. This bill requires a vote of the people, and offers them an alternative to property taxes.

Nathan Tuberg, Director of Finance and Administrative Services, City of Billings, said that Billings draws a lot of conferences and this is one way that local people can be granted a little bit of relief. He urged support of **SB 370**.

Tim Burton, Chief Administrative Officer, Lewis and Clark County, said he stands in support of **SB 370**. He said this bill gives the people a choice and is a way to hold down the property tax burden of the citizens of Montana. He said the problem presently is that every time the county engages the electorate on the level of service, because it cannot be maintained at the level they are used to, every option goes back to the property tax bills. This offers another option than the property taxes.

Mike Kadas, Mayor, Missoula, testified that the revenue streams for Missoula's general fund are about 50% property tax, 10% video gaming, and the balance is from other taxes. Missoula would like to diversify their revenue stream so that it is more stable, and this allows them to replace property taxes with this type of

revenue. He said rather than a local sales tax, it is really focused on tourists. He said there is no doubt that tourism increases the costs of services provided by a municipality or county, and this will be an option to let tourism help pay for some of that burden.

SEN. ECK said that local option sales taxes have been considered in the legislature before. She said that a local option sales tax really does empower the local people. The local taxpayers can have a voice in what will be taxed, and how that tax will be used.

Opponents' Testimony: None

Questions from Committee Members and Responses:

CHAIRMAN DEVLIN asked **SEN. STANG** what the vote was when it came out of the Interim Tax Committee, and **SEN. STANG** said he thought it was 4 for and 6 against.

CHAIRMAN DEVLIN then asked how the split with municipalities is handled if this tax is imposed countywide, and **SEN. STANG** directed him to page 11, Section 15, distribution of local option sales tax proceeds, "A local option sales tax imposed by the county must be levied countywide. Unless otherwise provided by agreement with municipalities, the county shall distribute local option sales tax revenue to the municipalities in the following manner," and then it goes on to set that out.

CHAIRMAN DEVLIN then asked about the 5% tax relief, and **SEN. STANG** said it is at least 5%, but could be more than that.

SEN. ELLIS asked **Mayor Kadas** why this is a better idea than a statewide sales tax. **Mayor Kadas** said he just feels that a statewide sales tax will not pass the electorate. The local option sales tax allows the local governments an opportunity to diversify their revenue streams, and that will provide relief to property taxpayers. With respect to whether it will be broad-based or not, he said he would prefer that the local entities be given the option to make those decisions on what is taxed and how it will be distributed.

SEN. ELLIS then asked about those from out of town who come to the larger cities for goods and services, and **Mayor Kadas** said that when someone comes into a community to purchase goods, they bring business to that community, but they also have impacts on that community. He said it will impact local citizens as well, and he pointed out that this taxes items on which there is a lot of discretion for expenditures.

SEN. ELLINGSON said that Alec Hansen had testified that if a tax like this were allowed in Missoula, property taxes could be cut by a third, and he wondered whether that was accurate. **Mayor Kadas** said that that was in the ballpark. He said hotels and motels only could generate in the neighborhood of \$800,000 at 3%, and they are about 20% or 30% of the total, which equates to about 11 or 12 mills, a major impact.

SEN. ELLINGSON then asked about the tax being based upon destination ski resorts, and how that would be determined, and **Mayor Kadas** said he thought that the bill included some flexibility which the local entity would have to determine.

SEN. ECK asked **SEN. STANG**, of those communities that have adopted the resort tax, how much of that is used to reduce taxes and pay bonds, and he referred to St. Regis as an example. He said they probably raise \$110,000 to \$120,000 per year. **SEN. STANG** said when it was first voted on, the proceeds were first used to pay off the debt on the new sewer system, about \$60,000 yearly, and the \$50,000 balance was to be used for grants to the fire department. He said these taxes have been used to replace things that property taxpayers would have been burdened with.

SEN. ECK then asked about the surrounding areas around these cities that have a local option sales tax, and whether a city would be prevented from paying for projects outside the city, and **SEN. STANG** referred her to page 4, and said that when the tax is being voted on, the taxpayers would be very aware of what the tax will be used for.

Closing by Sponsor:

SEN. STANG said that the reason he had changed his mind on the local option sales tax was the success that had been experienced in St. Regis.

ADJOURNMENT

Adjournment: 9:05 A.M.

SEN. GERRY DEVLIN, Chairman

SANDY BARNES, Secretary

GD/SB

EXHIBIT (tas35aad)